

## NEWS RELEASE

For Release --

The audit report of Alta Municipal Utilities for the year ended December 31, 2006, has been released. This report was issued by Hunzelman, Putzier & Co., PLC, C.P.A.'s and filed with David A. Vaudt, Auditor of State.

A copy of the audit report is available for review in the office of the Auditor of State and the Utility's office.

ALTA MUNICIPAL UTILITIES  
INDEPENDENT AUDITOR'S REPORTS  
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS  
  
DECEMBER 31, 2006

ALTA MUNICIPAL UTILITIES

ALTA, IOWA

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ALTA MUNICIPAL UTILITIES

ALTA, IOWA

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
C. Alan Wadsley	Trustee	June 2008
Kevin Walsh	Trustee	June 2009
Jeff James	Trustee	June 2010
Ron Gullickson	Trustee	June 2011
Dennis Weber	Trustee	June 2012

HUNZELMAN, PUTZIER & CO., PLC  
CERTIFIED PUBLIC ACCOUNTANTS

WESLEY E. STILLE, C.P.A.  
JEFFORY B. STARK, C.P.A.  
KEITH C. GERMANN, C.P.A.  
RICHARD R. MOORE, C.P.A.  
KENNETH A. PUTZIER, C.P.A. (RETIRED)  
W.J. HUNZELMAN, C.P.A. 1921-1997

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Alta Municipal Utilities  
Alta, Iowa

We have audited the accompanying balance sheet of Alta Municipal Utilities, a component unit of City of Alta, as of and for the year ended December 31, 2006, and the related statements of revenues, expenses, and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Utility's management. Our responsibility is to express an opinion on these financial statements based on our audit.

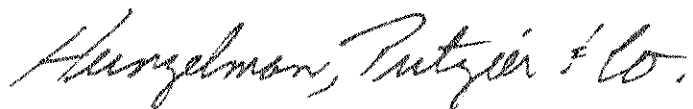
We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Alta Municipal Utilities as of December 31, 2006, and the respective changes in its financial position and cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

The Utility has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 4, 2007, on our consideration of Alta Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

May 4, 2007



ALTA MUNICIPAL UTILITIES  
BALANCE SHEET  
DECEMBER 31, 2006

Exhibit A

ASSETS

2006

CAPITAL ASSETS

Utility plant in service	\$6,896,019
Construction in progress	<u>1,180,645</u>
	8,076,664
Less accumulated depreciation	<u>4,011,962</u>
Total net capital assets	<u>4,064,702</u>

CURRENT ASSETS

Unrestricted:

Cash and cash equivalents	55,780
Temporary cash investments	860,000
Accounts receivable	225,774
Joint use contract receivable	460,000
Inventories	74,345
Accrued interest receivable	4,733
Prepaid expenses	5,770

Restricted:

Bond sinking fund	<u>24,733</u>
Total current assets	<u>1,711,135</u>

OTHER ASSETS

Unrestricted:

Non-utility property -- net of accumulated depreciation	14,642
Land held for investment	25,842
Plant acquisition costs -- net of amortization of \$48,091	14,209
Investments -- bond proceeds	1,671,241
Deferred patronage refund receivable	16,887
Bond issuance costs -- net of amortization of \$10,934	46,560

Restricted:

Bond improvement fund	172,000
Bond reserve fund	306,229
NIMECA -- Neal 4 operations account	32,614
Common transmission system -- capital improvement fund	<u>118,560</u>
Total other assets	<u>2,418,784</u>

DEFERRED DEBITS

21,193

Total assets	<u>\$8,215,814</u>
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(Continued)

ALTA MUNICIPAL UTILITIES  
BALANCE SHEET  
DECEMBER 31, 2006

Exhibit A  
(Continued)

LIABILITIES AND NET ASSETS

2006

CURRENT AND ACCRUED LIABILITIES

Current maturities of revenue bonds	\$ 145,000
Accounts payable	81,154
Customer deposits	31,335
Other current and accrued liabilities	<u>59,128</u>
Total current and accrued liabilities	<u>316,617</u>

LONG-TERM DEBT, LESS CURRENT MATURITIES

Electric revenue bonds - net of unamortized discount of \$52,200	<u>4,272,800</u>
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NET ASSETS

Invested in capital assets, net of related debt	1,299,057
Restricted	654,136
Unrestricted	<u>1,673,204</u>
Total net assets	<u>3,626,397</u>

Total liabilities and net assets	<u>\$8,215,814</u>
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The accompanying notes are an integral part of this statement.

ALTA MUNICIPAL UTILITIES  
STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2006

Exhibit B

	<u>Light Plant</u>	<u>Water Plant</u>	<u>Total</u>
<u>OPERATING REVENUE</u>			
Sales to consumers	\$1,215,437	\$ 282,667	\$1,498,104
Penalties and service fees	6,193	1,071	7,264
Tax revenues	-	7,046	7,046
Joint use revenue	110,000	-	110,000
Miscellaneous	<u>7,223</u>	<u>3,999</u>	<u>11,222</u>
Total operating revenues	<u>1,338,853</u>	<u>294,783</u>	<u>1,633,636</u>
<u>OPERATING EXPENSES</u>			
Purchased power	<u>579,175</u>	<u>-</u>	<u>579,175</u>
Local plant operations:			
Depreciation and amortization	47,302	72,433	119,735
Supplies and chemicals	14,476	29,432	43,908
Wages and benefits	5,599	16,764	22,363
Utilities	6,681	49,712	56,393
Fuel and oil	9,596	1,008	1,604
Other	<u>6,761</u>	<u>2,070</u>	<u>8,831</u>
Total local plant operations	<u>90,415</u>	<u>171,419</u>	<u>261,834</u>
Generating plant – Council Bluffs 4:			
Fuel	1,006	-	1,006
Generation – operation/maintenance	8,445	-	8,445
Transmission – operation/maintenance	53	-	53
Facility charges	51	-	51
Other	<u>59</u>	<u>-</u>	<u>59</u>
Total generating plant – Council Bluffs 4	<u>9,614</u>	<u>-</u>	<u>9,614</u>
Distribution expenses – electric:			
Wages and benefits	30,506	12,027	42,533
Depreciation	18,753	4,702	23,455
Other	<u>504</u>	<u>1,949</u>	<u>2,453</u>
Total electric distribution expenses	<u>49,763</u>	<u>18,678</u>	<u>68,441</u>
Distribution expenses – communications:			
Wages and benefits	3,415	-	3,415
Supplies	9,509	-	9,509
Maintenance and repairs	1,273	-	1,273
Property taxes	10,420	-	10,420
Depreciation	<u>251,812</u>	<u>-</u>	<u>251,812</u>
Total communications distribution expense	<u>276,429</u>	<u>-</u>	<u>276,429</u>
Maintenance expenses:			
Wages and benefits	21,827	21,202	43,029
Testing and supplies	26,618	15,973	44,591
Depreciation	1,459	5,738	7,197
Other	<u>7,613</u>	<u>1,402</u>	<u>9,015</u>
Total maintenance expenses	<u>59,517</u>	<u>44,315</u>	<u>103,832</u>

(Continued)



ALTA MUNICIPAL UTILITIES  
STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2006

Exhibit B

	<u>Light Plant</u>	<u>Water Plant</u>	<u>Total</u>
<u>OPERATING EXPENSES – (Continued)</u>			
General and administrative expenses:			
Salaries and wages	\$ 67,590	\$ 43,508	\$ 111,098
Office supplies and postage	4,688	4,424	9,112
Depreciation	3,023	246	3,269
Insurance – employees	16,489	10,802	27,291
Insurance – general	10,736	6,686	17,422
Professional fees	5,791	3,801	9,592
Dues and subscriptions	2,553	751	3,304
Advertising	848	873	1,721
Meeting and travel	472	259	731
Technical support	1,028	1,028	2,056
Telephone	1,696	1,231	2,927
Energy conservation and efficiency	3,133	-	3,133
Bad debts (recoveries)	(2,508)	-	(2,508)
Other expenses	7,740	3,100	10,840
Total general and administrative expenses	<u>123,279</u>	<u>76,709</u>	<u>199,988</u>
 Total operating expenses	 <u>1,188,192</u>	 <u>311,121</u>	 <u>1,499,313</u>
 Operating income (loss)	 150,661	 (16,338)	 134,323
<u>NON-OPERATING REVENUE AND EXPENSE</u>			
Interest earned on investments	117,663	-	117,663
Interest expense	(211,359)	-	(211,359)
Amortization of bond issue costs	(3,299)	-	(3,299)
Deferred patronage allocations	2,884	-	2,884
 Non-operating loss	 <u>(94,111)</u>	 <u>-</u>	 <u>(94,111)</u>
 Change in net assets	 56,550	 (16,338)	 40,212
Net assets, beginning of year	2,719,688	914,425	3,634,113
Less: Residual equity transfer to City	<u>(47,928)</u>	<u>-</u>	<u>(47,928)</u>
Net assets, end of year	<u>\$2,728,310</u>	<u>\$ 898,087</u>	<u>\$3,626,397</u>

The accompanying notes are an integral part of this statement.

ALTA MUNICIPAL UTILITIES  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2006

Exhibit C

	<u>2006</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>	
Cash received from customers	\$1,514,024
Cash paid to suppliers	(922,040)
Cash paid to employees	<u>(221,592)</u>
Net cash provided by operating activities	<u>370,392</u>
<u>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</u>	
Payments to city	<u>(47,928)</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>	
Acquisition and construction of utility plant	(272,618)
Principal paid on bonds	(140,000)
Interest paid on bonds	<u>(157,288)</u>
Net cash used in capital and related financing activities	<u>(569,906)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>	
Investments matured or sold	166,075
Purchase of investments	(130,000)
Interest received	54,386
Patronage dividends received	678
Purchase of restricted cash	<u>(23,959)</u>
Net cash provided by investing activities	<u>67,180</u>
<u>NET DECREASE IN CASH AND CASH EQUIVALENTS</u>	(180,262)
Cash and cash equivalents at beginning of year	<u>236,042</u>
<u>CASH AND CASH EQUIVALENTS AT END OF YEAR</u>	<u>\$ 55,780</u>

(Continued)

The accompanying notes are an integral part of this statement.

ALTA MUNICIPAL UTILITIES  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2006

Exhibit C  
(Continued)

	<u>2006</u>
<u>RECONCILIATION OF OPERATING INCOME TO CASH</u> <u>PROVIDED BY OPERATING ACTIVITIES:</u>	
Operating income	<u>\$ 134,323</u>
Adjustments to reconcile operating income to cash provided by operations:	
Depreciation and amortization	405,468
Changes in assets and liabilities:	
(Increase) in accounts receivable	(116,107)
(Increase) in inventory	(41,315)
(Increase) in prepaid expenses	(358)
Decrease in deferred debits	3,740
(Decrease) in accounts payable	(21,251)
Increase in other liabilities	<u>5,892</u>
Total adjustments	<u>236,069</u>
Net cash provided by operating activities	<u>\$ 370,392</u>

SCHEDULE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITY

During the year ended December 31, 2006, the Utility paid interest of \$58,844 on the 2005 revenue funding notes with interest earnings in the bond escrow account.

The accompanying notes are an integral part of this statement.

ALTA MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Alta Municipal Utilities is a component unit of City of Alta. The Mayor appoints the trustees of the Utility subject to approval by the City Council. The City Council also approves the Utility's operating budget.

Alta Municipal Utilities distributes electric energy and water to consumers in Alta, Iowa. Sales of water and electricity are billed on the twenty-fifth of each month for usage through the fifteenth of the month. As has been done in prior years, an unbilled receivable in the amount of \$54,830 has been recorded (\$54,977 at December 31, 2005) for the period December 15 through December 31. Alta Municipal Utilities is billed by their suppliers on a calendar month basis.

The Utility's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standard Board.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Reporting Entity

For financial reporting purposes, Alta Municipal Utilities has included all funds, organizations, agencies, boards, commissions, and authorities. The Utility has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Utility are such that exclusion would cause the Utility's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Utility to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the Utility. Alta Municipal Utilities has no component units which meet the Governmental Accounting Standards Board criteria.

Basis of Presentation

The accounts of Alta Municipal Utilities are organized as an Enterprise Fund. Enterprise Funds are used to account for operations (a) financed and operated in a manner similar to private business enterprises, where the intent of the governing body is the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Measurement Focus and Basis of Accounting

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

ALTA MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Measurement Focus and Basis of Accounting - (Continued)

The Utility applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

The Utility distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Utility's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Cash, Investments, and Cash Equivalents - Investments are carried at cost which approximates market value. For the purpose of reporting cash flows, cash and cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Inventories - Inventories are stated at the lower of cost or replacement value. Cost is determined on a weighted average method.

Utility Plant - Utility plant is stated at cost. Cost of labor, materials, supervision, and other costs incurred making improvements and replacements to the system, except minor replacements, are charged to the plant accounts while such costs incurred in making normal repairs, minor replacements, and maintaining the assets in efficient operating condition are charged to expense.

Provisions for depreciation of generating, transmission, and distribution plant are computed on a straight-line basis employing a group method. The original costs of assets retired (not constituting the sale of an operating unit or system) together with the costs of removal less salvage are charged to the related accumulated depreciation accounts. In accounting for the sale of operating units or systems, gains or losses are reflected in net revenue.

Provisions for depreciation of general plant are computed on a straight-line basis employing the unit depreciation method. The original cost of property retired is removed from the general plant accounts and the related accumulated depreciation accounts are charged for the depreciation taken to date. Gain or loss is recognized to the extent that the salvage value of the assets retired exceeds or falls short of the remaining book value of the assets retired.

Amortization - The cost of acquiring a portion of the common transmission system is being amortized over the remaining useful life of the assets.

Legal fees and other expenses associated with the issuance of the electric revenue notes are being amortized on the straight-line method over the term of the bonds. Amortization charged to expense in 2006 and 2005 was \$2,406.

Interest Expense - The Utility follows the policy of capitalizing interest as a component of the cost of utility plant. In 2006, total interest incurred was \$221,162, of which \$211,359 was charged to expense.

Compensated Absences - Utility employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, death, or retirement. The Utility's liability for accumulated vacation has been computed based on rates of pay in effect at December 31, 2006.

ALTA MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Budgets and Budgetary Accounting - The Board of Trustees annually adopts a budget on the accrual basis following required public notice and hearing in accordance with the Code of Iowa. The budget may be amended during the year utilizing similar statutorily prescribed procedures.

The following is a comparison of revenues, expenses, and changes in net assets - actual to budget:

	<u>Actual</u>	<u>Budgeted Amount</u>	<u>Budget to Actual Variance</u>
Revenues:			
Use of money and property	\$ 117,663	\$ 78,000	\$ 39,663
Charges for services	<u>1,636,520</u>	<u>1,522,006</u>	<u>114,514</u>
	1,754,183	1,600,006	154,177
Expenses	<u>1,713,971</u>	<u>2,858,613</u>	<u>1,144,642</u>
Net	40,212	(1,258,607)	1,298,819
Net assets, beginning of year	3,634,113	2,942,915	691,198
Residual equity transfer to City	<u>(47,928)</u>	<u>(42,000)</u>	<u>(5,928)</u>
Net assets, end of year	<u>\$3,626,397</u>	<u>\$1,642,308</u>	<u>\$1,984,089</u>

2. DEPOSITS

The Utility's deposits in banks at December 31, 2006, were entirely covered by Federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Utility is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Utility's investments as of December 31, 2006 are as follows:

US Treasury securities (revenue refunding bond proceeds held in escrow)	\$1,430,900
US Government Agency securities	226,668
Other interest bearing account	<u>13,673</u>
Total	<u>\$1,671,241</u>

Interest rate risk - The Utility's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the Utility.

ALTA MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006

3. ELECTRIC REVENUE BONDS

Annual debt service requirements to maturity for revenue bonds are as follows:

Year Ending December 31,	2000 Revenue Notes		2003 Revenue Notes		2005 Revenue Refunding Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 75,000	\$ 94,625	\$ 70,000	\$ 57,168	\$ -	\$ 61,225	\$ 145,000	\$ 213,018
2008	1,510,000	90,425	70,000	55,347	-	61,225	1,580,000	206,997
2009	-	-	75,000	53,318	110,000	61,225	185,000	114,543
2010	-	-	75,000	50,955	115,000	57,100	190,000	108,055
2011	-	-	80,000	48,442	120,000	52,730	200,000	101,172
2012-2016	-	-	460,000	193,895	655,000	188,732	1,115,000	382,627
2017-2021	-	-	590,000	86,200	465,000	41,765	1,055,000	127,965
	<u>1,585,000</u>	<u>185,050</u>	<u>1,420,000</u>	<u>545,325</u>	<u>1,465,000</u>	<u>524,002</u>	<u>4,470,000</u>	<u>1,254,377</u>
Less: Current maturities	(75,000)	-	(70,000)	-	-	-	(145,000)	-
Unamortized discount	<u>(18,204)</u>	<u>-</u>	<u>(16,874)</u>	<u>-</u>	<u>(17,122)</u>	<u>-</u>	<u>(52,200)</u>	<u>-</u>
	<u>\$1,491,796</u>	<u>\$185,050</u>	<u>\$1,333,126</u>	<u>\$545,325</u>	<u>\$1,447,878</u>	<u>\$524,002</u>	<u>\$4,272,800</u>	<u>\$1,254,377</u>

The resolutions providing for the issuance of revenue bonds include the following provisions:

- A. The bonds will only be redeemed from the future earnings of the enterprise activity and the bondholders hold a lien on the future earnings of the funds.
- B. Sufficient monthly transfers shall be made to electric revenue sinking account for the purpose of making the bond principal and interest payments when due.
- C. The Utility is to establish a separate Bond Reserve Account into which there shall be set apart and paid at the time of delivery of the obligations the sum of \$250,000 for the 2000 bonds. Monthly deposits of 25% of sinking fund deposits, to a maximum of \$146,650, shall be set apart for the 2003 bond issue.
- D. Additional monthly transfers of \$2,000 to the Bond Improvement Fund shall be made until the sum of \$100,000 has been accumulated for each bond issue. These accounts are restricted for the purpose of paying for necessary repairs, improvements, and extension to the system

In December, 2005 the Utility issued \$1,465,000 of revenue refunding notes to advance refund the 2000 revenue notes under a crossover refunding arrangement. The proceeds of the 2005 refunding notes were placed in an irrevocable trust fund to provide for the future debt service of the 2000 notes. Interest on the 2005 refunding notes will be paid from the escrow account through December 1, 2008, on which date the 2000 notes will be called for redemption and also paid from the escrow account. As a result of the advance refunding, the Utility achieved a debt service savings of \$192,691. The escrow account assets and the liability for the notes are included in the Utility's financial statements until defeasance occurs.

ALTA MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006

4. RESTRICTED NET ASSETS

Net assets have been restricted in amounts necessary to fund the following specific reserves:

	<u>2006</u>
Restricted:	
Neal 4 operations account	\$ 32,614
CTS Improvement account	118,560
Bond retirement sinking fund	24,733
Bond reserve fund	306,229
Bond improvement fund	<u>172,000</u>
	<u>\$ 654,136</u>

5. COMMON TRANSMISSION SYSTEM – CAPITAL IMPROVEMENT FUND

This account is currently used to record funds deposited with NIMECA to be used for future construction and/or maintenance of the common transmission.

6. PENSION AND RETIREMENT BENEFITS

The Utility contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the Utility is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Utility's contributions to IPERS for the years ending December 31, 2006, 2005, and 2004 were \$11,008, \$10,272, and \$9,645, respectively, equal to the required contribution for each year.

7. RISK MANAGEMENT

Alta Municipal Utilities is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Utility assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

8. SIGNIFICANT AREA CONCENTRATION OF CREDIT RISK

The Utility extends credit to its customers on terms no more favorable than standard terms of the industry it serves. A substantial portion of the Utility's customers are located in Alta, Iowa. The Utility's credit risks have been anticipated and management believes that adequate provision has been made for doubtful accounts.



ALTA MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2006 AND 2005

9. RELATED PARTY TRANSACTION

Pursuant to Iowa Code Chapter 28E.18 concerning the joint use of facilities through sharing agreements, the Alta Municipal Utilities and the Alta Municipal Broadband Communications Utility have entered into an agreement whereby the Communications Utility shall pay the Electric Utility the sum of \$110,000 (accrued monthly) on or before the first day of May each year for the use of a portion of the Communications distribution system for the previous calendar year. The term of this agreement is forty years and the payments are due May 1 of each year.

10. ACCOUNTING RESTATEMENTS

Beginning net assets has been restated to reflect a change in prior year assets and liabilities. This restatement is summarized below:

	<u>Amount</u>
Net assets December 31, 2005 as previously reported	\$4,130,366
Restatement of the following beginning balances:	
Accounts receivable	77,464
Accumulated depreciation	(494,907)
Capital assets	(53,755)
Various other assets	(4,643)
Various other liabilities	<u>(20,412)</u>
Restated net assets December 31, 2005	<u>\$3,634,113</u>

11. COMMITMENTS

During 2003, the Electric Utility entered into an agreement to purchase 0.13% ownership in the generating facilities at Council Bluffs 4. The plant is expected to be in operation approximately June 2007. The commitment of Alta Municipal Utilities is expected to be \$1,645,000. Approximately \$1,267,000 has been paid resulting in a remaining commitment of approximately \$378,000.

HUNZELMAN, PUTZIER & CO., PLC  
CERTIFIED PUBLIC ACCOUNTANTS

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RICHARD R. MOORE, C.P.A.  
KENNETH A. PUTZIER, C.P.A. (RETIRED)  
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Board of Trustees  
Alta Municipal Utilities  
Alta, Iowa

The primary purpose of our examination was to formulate an opinion on the financial statements taken as a whole. The additional information presented in the following pages was prepared on the basis of audit procedures applied in our examination of the financial statements. This information, while not considered necessary for fair presentation of the financial statements is, in our opinion, fairly stated in all material respects when considered in relation to the financial statements taken as a whole.

*Hunzelman, Putzier & Co.*

May 4, 2007

ALTA MUNICIPAL UTILITIES  
SCHEDULE OF MUNICIPAL PLANT  
DECEMBER 31, 2006

Schedule 1

	Utility Plant				Accumulated Depreciation			Balance December 31, 2006	Depreciation Rates In Percent
	Balance January 1, 2006	Additions	Retire- ments	Balance December 31, 2006	Balance January 1, 2006	Expense	Retire- ments		
<u>ELECTRIC PLANT</u>									
Land	\$ 70,913	\$ -	\$ -	\$ 70,913	\$ -	\$ -	\$ -	\$ -	-
Buildings	194,647	-	-	194,647	131,113	6,138	-	137,251	2.50-6.67
Transmission plant	645,826	48,777	7,955	686,648	308,757	17,296	7,955	318,098	2.75
Equipment	617,824	-	-	617,824	474,464	23,515	-	497,979	3.33-10.00
Distribution lines	614,038	34,219	-	648,257	393,816	18,753	-	412,569	3.00-6.67
Communication distribution system	2,379,434	-	-	2,379,434	1,128,168	251,812	-	1,379,980	2.50-14.29
Other physical property	<u>210,310</u>	<u>1,638</u>	<u>-</u>	<u>211,948</u>	<u>200,990</u>	<u>2,161</u>	<u>-</u>	<u>203,151</u>	10.00-20.00
Electric plant in service	<u>4,732,992</u>	<u>84,634</u>	<u>7,955</u>	<u>4,809,671</u>	<u>2,637,308</u>	<u>319,675</u>	<u>7,955</u>	<u>2,949,028</u>	
<u>WATER PLANT</u>									
Buildings	641,875	-	-	641,875	292,116	22,792	-	314,908	3.00-10.00
Equipment	872,768	198,943	-	1,071,711	433,553	49,641	-	483,194	2.00-10.00
Distribution lines	255,746	-	-	255,746	176,086	4,702	-	180,788	5.00-10.00
Other physical property	<u>86,192</u>	<u>30,824</u>	<u>-</u>	<u>117,016</u>	<u>78,060</u>	<u>5,984</u>	<u>-</u>	<u>84,044</u>	10.00
Water plant in service	<u>1,856,581</u>	<u>229,767</u>	<u>-</u>	<u>2,086,348</u>	<u>979,815</u>	<u>83,119</u>	<u>-</u>	<u>1,062,934</u>	
Total plant in service	6,589,573	314,401	7,955	6,896,019	3,617,123	402,794	7,955	4,011,962	
Construction in progress	<u>963,868</u>	<u>216,777</u>	<u>-</u>	<u>1,180,645</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Total Utility Plant	<u>\$7,553,441</u>	<u>\$ 531,178</u>	<u>\$ 7,955</u>	<u>\$8,076,664</u>	<u>\$3,617,123</u>	<u>\$ 402,794</u>	<u>\$ 7,955</u>	<u>\$4,011,962</u>	

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Trustees  
Alta Municipal Utilities  
Alta, Iowa

We have audited the financial statements of Alta Municipal Utilities, as of and for the year ended December 31, 2006, and have issued our report thereon dated May 4, 2007. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Utility's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the Utility's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Utility's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Utility's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of the Utility's financial statements that is more than inconsequential will not be prevented or detected by the Utility's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the Utility's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items I-A-06 and I-B-06 are material weaknesses.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Utility's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Utility's operations for the year ended December 31, 2006, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utility. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The Utility's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Utility's responses, we did not audit responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Alta, Iowa, and other parties to whom Alta Municipal Utilities may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Utility during the course of our audit.

Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



May 4, 2007

ALTA MUNICIPAL UTILITIES  
SCHEDULE OF FINDINGS  
YEAR ENDED DECEMBER 31, 2006

Part I: Findings Related to the Financial Statements:

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCIES:

I-A-06 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that bank deposits, opening mail, recording receipts and disbursements, checks and payroll preparation, and bank reconciliations are all handled by two individuals.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the Utility should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - Alta Utilities plans to cross-train office help as time and workload allow. This should help eliminate the handling of incompatible duties by an individual employee.

Conclusion - Response accepted.

I-B-06 Electronic Data Processing Systems - During our review of internal control, the existing control regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. The following weaknesses in the Utility's computer based systems were noted:

The Utility does not have written policies for:

- password privacy and confidentiality,
- requiring password changes because software does not require the user to change logins/passwords periodically,
- ensuring that only software licensed to the Utility is installed on computers,
- requiring user profiles to help limit access to programs to those who have a legitimate need,

Also, the Utility does not have a written disaster recovery plan.

Recommendation - The Utility should develop written policies addressing the above items in order to improve the Utility's control over computer based systems and a written disaster recovery plan should be developed.

ALTA MUNICIPAL UTILITIES  
SCHEDULE OF FINDINGS  
YEAR ENDED DECEMBER 31, 2006

Part I: Findings Related to the Financial Statements: (Continued)

SIGNIFICANT DEFICIENCIES: (Continued)

I-B-06 Electronic Data Processing Systems - (Continued)

Response - The Utilities will investigate the existence of model policies that can be tailored to fit the needs of Alta Municipal Utilities. If no policies exist, the Utilities will develop written policies as time allows.

Conclusion - Response accepted.

Part II: Other Findings Related to Statutory Reporting:

II-A-06 Budget - Utility expenses during the year ended December 31, 2006, did not exceed the amounts budgeted.

II-B-06 Questionable Expenditures - We noted no expenditures which may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-C-06 Travel Expense - No expenditures of Utility money for travel expenses of spouses of Utility officials or employees were noted.

II-D-06 Business Transactions - We noted the following business transactions between the Utility and Utility officials:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Ron Gullickson, Trustee Owner of Gully's Lawn Service	Parts and supplies	\$ 998

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with Trustee Gullickson do not appear to represent a conflict of interest since the total was less than \$2,500 during the year.

II-E-06 Bond Coverage - Surety bond coverage of Utility officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-F-06 Trustee Minutes - No transactions were found that we believe should have been approved in the Trustee minutes but were not.

II-G-06 Revenue Bonds - The Utility has established the sinking and reserve accounts required by the electric revenue bond resolution.

II-H-06 Deposits and Investments - We noted no instances of non-compliance with the deposit and the investment provisions of Chapter 12B and 12C of the Code of Iowa.

ALTA MUNICIPAL UTILITIES  
SCHEDULE OF FINDINGS  
YEAR ENDED DECEMBER 31, 2006

Part II: Other Findings Related to Statutory Reporting: - (Continued)

**II-I-06**    Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the Utility to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The Utility retains cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check as required.

Recommendation – The Utility should obtain and retain an image of both the front and back of each cancelled check as required.

Response – The Utility has contacted the bank and are now receiving an image of the back of the cancelled checks.

Conclusion – Response accepted.